

credit when, in consequence of a widely spread distrust among the mercantile community in each other's solvency, the exchange of goods becomes practically reduced to an actual cash basis, which entails an abnormal demand for gold from the banks. They simply retain sufficient cash in their tills for the payment of cheques in notes or coin in the ordinary course of business—the amount of which they are able, from the experience of the past, to predict from day to day. But any cash reserve adequate for the excited and concurrent claims which have been mentioned they do not maintain. They possess sound assets, it is true, in the form of investments in Government and other approved securities, but these would not be available to discharge the clamorous calls of their customers for the cash which alone is acceptable in periods of alarm. An attempt to realise these securities in the market at such a time would be inevitably futile; none would possess the cash with which to buy; and even if a store of cash were available, none would invest in securities which, in the common apprehension and disturbance, were apparently destined to sustain a continuous fall. The banks, then, cast upon the Bank of England alone the duty of providing the total reserve for preservation of national solvency, by keeping large accounts with that bank.

Consider now the modes in which this Eeserve can be affected, and the nature of the protective measures for ensuring its integrity, with the manner of their operation. The bank can directly increase its- store of gold by purchasing the metal imported into the country in the form of bullion (or bars of uncoined substance) or of foreign gold coins which, if necessary, - can be melted into pure gold free from its alloy. For these purchases the bank, of course, pays the equivalent value; as the exchanged value assumes the form of notes, the stock of gold can thus be augmented; and with any addition of gold to the account of the issue department, the banking department can hold an increased fund of notes which, as has been observed, may be treated as cash, and thus improve the cash reserve. But let it be remembered that the notes

thus granted in the purchase of bullion  
can be presented at any moment for  
instant conversion into gold. Now this  
accumulation of gold—